

TOP SECRET FROTH

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DISRUPTION TO SHIPPING IN THE CHINA TRADE
MAJOR PROBLEM TO PEIPING
(Secret)

PLS File

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The disruption to shipping in the China trade caused by the Nationalist blockade has been financially costly to the Orbit and may force Peiping to take positive action. Since the seizure of the Russian tanker Tuapse on 23 June, all ships with industrial cargo from Eastern Europe have offloaded in South China for shipment north by rail, due to fear of the Chinese Nationalist navy around Formosa.

*effect
of
floods?
- Mm*

The recent floods have washed out portions of both north-south rail lines with the result that the part of this route inside China is now closed. In effect, the Nationalists have deprived North China of industrial goods from Eastern Europe, which are usually seaborne. The extra shipping costs which accrued to China, the USSR and Poland during the past two months are probably equivalent to over \$2,000,000.

Besides these major and growing economic considerations, Peiping and the USSR have lost face as a result of the detention of the Tuapse and the aircraft incidents near Hainan Island which stemmed from Communist efforts to provide air-sea escorts in the South China Sea. Moscow apparently has withdrawn its ships from the Europe-China run, at least temporarily. No Russian ship has begun to load in Europe for China since the Tuapse seizure, whereas during the first seven months of 1954, Soviet ships carried 30 percent of Chinese seaborne imports from Eastern Europe.

These factors may soon compel the Communists to attempt to provide escort around Formosa, or to route shipping far enough east of Formosa to be safe, or else to start carrying a large part of Sino-Satellite trade on the trans-Siberian railroad, a costly alternative.

The continued failure to route ships bound for North China east of the Philippines and outside the estimated 500-mile range of the Nationalist navy may reflect uncertainty as to the real strength of the Nationalists. It may, however, have more ominous implications--namely, that Peiping and Moscow are unwilling to have commercial shipping in an area where military operations may be contemplated.

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19 Aug 54

CURRENT INTELLIGENCE REVIEW

Page 10

TOP SECRET FROTH

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Chou En-lai, in his report on foreign affairs made at the 33rd session of the Central People's Government Council held on 11 August, admitted the existence of a blockade of the East China coast when he stated that the United States had given support "to the blockade of our coast by the traitorous Chiang Kai-shek group." Prior to this time the disruption of shipping was referred to merely as piracy and harassment.

Since 23 June, delays and rerouting of Soviet vessels alone are estimated to have cost the USSR \$500,000. Polish ships are also subject to these delays. In addition to the extra costs of shipping goods overland, export cargoes have not always been available for ships in South China, forcing them to return to Europe empty. Total shipping costs to the bloc have clearly amounted to millions of dollars.

Whampoa, South China's only port, which has dock facilities for no more than two ocean-going vessels at one time, has been jammed for weeks. Two Russian tankers which were in the South China Sea in June were subsequently diverted to Whampoa, and one is still there. Another tanker, the Polish Wspolpraca, recently arrived at Whampoa. Due to limited fuel storage capacity there, it is doubtful that tankers can be handled at a faster rate than one every three or four weeks.

In addition to these three tankers, ten cargo ships with 59,000 tons of dry cargo have arrived at Whampoa since 10 July, and four more Soviet bloc ships are now in Far East waters heading for the port.

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